W.O.R.C. Force

Work Opportunity Response Commission

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Contents

Overview

On August 22, 1996, federal legislation overhauling the nation's welfare system was signed into law. Several public assistance programs are affected, most notably Aid to Families with Dependent Children (AFDC), which has been eliminated. For more than 60 years, AFDC has been the central component of the welfare system. In its place, states will receive block grants -- called Temporary Assistance to Needy Families, or TANF -- that set new conditions on aid. Able-bodied recipients will no longer be entitled to receive cash payments for more than five years in their lifetime, and assistance will be discontinued if they do not engage in work activities within two years.

States that fail to meet the welfare-to-work targets set forth in the federal law risk reductions in their block grant allocation. The penalty starts at 5% of the allocation and increases each year if the work participation goals are not met. The percentage of a state's welfare households that must be moved off aid and into work activities increases from 25% by July 1, 1997, to 50% in 2002.

Clearly, policymakers and citizens face an enormous challenge. A program that has been in place for more than 60 years is not easily transformed. The task is made even more urgent by the short time frame in which these changes must be implemented.

State Controller Kathleen Connell, in her capacity as the State's Chief Financial Officer, convened the Work Opportunity Response Commission (WORC Force) to assist lawmakers as they devise a strategy for implementing the jobs component of welfare reform. The Commission's goal was to develop a framework document that would present possible approaches and additional guidance for consideration by policymakers and legislators. The Commission began its work October 8, 1996; with the publication of its recommendations in this report, the Commission has been officially disbanded.

The WORC Force recommendations are being provided to the Governor, the State Legislature, our Congressional delegation and the White House, those who must make difficult decisions in the weeks and months ahead.

This report focuses on three areas crucial to moving people from welfare to work: job training and apprenticeship to give people marketable skills; tax incentives to encourage businesses to grow and employ women and men leaving the welfare rolls; and support services, such as child care, needed to facilitate the transition of individuals from welfare to work.

Welfare reform is a turning point issue for California's economy now and in the future. It presents exciting opportunities because, if successful, it will unleash a tremendous force for economic growth, productivity, and opportunity. Millions of families in California and across the nation will gain the opportunity to become independent and self-supporting. If not successful, it could jeopardize the State's fiscal health and put the economy in a tailspin for years to come.

"Welfare Reform: A Book With Two Chapters"

Welfare reform is a book with two chapters. The recently enacted federal legislation is Chapter One. Chapter Two, job creation, has not yet been written. Make no mistake about it -- welfare reform will not succeed if we think the job creation chapter will write itself. Our state's leaders must take aggressive steps to create the job capacity for accommodating the thousands of people who will be removed from the welfare rolls.

As California's Chief Financial Officer, I believe this is the single most important fiscal challenge facing our state as we enter the next century. As a California citizen and as a parent of young sons who will grow up in the post-welfare reform era we build, I believe that the compassion we bring to this challenge will set the tone for our future. We are one California and we must recognize that each of us -- regardless of political party, regardless of personal financial status -- has a stake in the success of this venture. Every corner of the state is affected.

When I formed the Work Opportunity Response Commission,I sought bipartisan representation from the four key sectors that will need to be involved in writing this chapter of welfare reform: business, labor, counties, and state government. From the standpoint of budget impact, county involvement is particularly crucial. If a sufficient number of welfare recipients are not moved into jobs, county governments could be forced to add thousands of people to their General Assistance rolls. This could potentially bankrupt counties already on the fiscal edge. Labor and business participation is also critical. As the driving force behind California's economic recovery, these sectors will largely determine the work opportunities that are made available to welfare recipients.

Our recommendations are the result of eight weeks of intense discussion and debate. The process was greatly aided by the involvement of numerous representatives from community-based organizations, private sector job training programs, non-profit social service providers, and state and local agencies. Individual welfare recipients and advocacy groups also made valuable contributions. The broad spectrum of representation helped the Commission identify several fundamental issues that policymakers will need to confront as they implement the jobs component of welfare reform.

CONFRONTING FUNDAMENTAL ISSUES

The path toward enactment of the federal law restructuring the welfare program has not been easy. Implementation of the new law will be even more challenging. It is vital, however, that the core issues before us are addressed and the tough choices are made. Citizens at large, as well as lawmakers, need to be involved in this public discourse. Decisions about how tax dollars will be spent in the post-welfare reform era will affect all of us.

The Commission identified several key issues that will shape the upcoming debate over the welfare-to-work transition, including the following:

- ***How will California ensure that it meets the federal targets for moving those on public assistance from welfare to work?***

The federal law requires the State, as a whole, to move a specific percentage of its welfare population to work, beginning in 1997. These employment requirements increase over the next five years. Failure to meet these targets would result in the entire State's block grant being reduced, a scenario we must avoid. The State will need to hold counties accountable for moving the required percentage of their welfare recipients into work activities. Adjustments to the requirements may need to be made for counties with exceptionally high unemployment and large AFDC caseloads. However, such exceptions must not jeopardize the entire State's federal welfare allotment.

- ***How should state and county government divide responsibility for helping welfare recipients find jobs?***

One of the key messages sent by taxpayers -- the driving force behind welfare reform -- is that local needs and conditions are best addressed through local solutions. The federal government has dismantled its 60-year-old bureaucracy, and the State should not simply rebuild it. Rather, the State should limit its role to: 1) providing model approaches to assist counties; and 2) assuring that county activities do not disadvantage non-welfare recipients in terms of job opportunities and training. The Commission's recommendations include several approaches that the State could encourage county governments to adopt, but ultimately the decision should rest with local officials.

- ***What strategy -- work first or training first -- should be emphasized?***

The dichotomy between work first and training first is one of the most fundamental issues that needs to be addressed. Since many welfare recipients lack basic job skills, some argue that the best way for the State to transition them to work is to focus on job training. However, practitioners in the business of placing welfare recipients in jobs presented compelling evidence to the Commission that supports a "work first" approach. The recipient's ultimate success in achieving self-sufficiency depends most heavily on his or her work ethic. The most effective way to instill this is to place the individual in a real, wage-paying work environment. Training to promote advancement can and should take place on the job, while the new employee learns the importance of personal responsibility and the rewards it brings.

- ***How do we assure that new workers not only gain a job, but can support their family?***

California's typical AFDC family is composed of a single mother with two young children. For this parent to make a successful transition from welfare to work, the issue of child care is of paramount concern. This is especially problematic given that many of the entry-level jobs these individuals may be qualified to take will require them to find child care during off-hours, when affordable child care may be difficult, if not impossible, to secure. Welfare recipients will face other obstacles as well, such as the need for transportation, which hamper their ability to make a successful transition to work. It is imperative that these surrounding issues be part of the jobs equation.

- ***Do efforts to help welfare recipients transition into the workplace unfairly disadvantage those currently working at low-wage jobs?***

The underlying concern behind welfare reform is ensuring that people who can and should provide for themselves and their families do so. Most people work hard to make ends meet, many struggle at the bottom of the economic ladder without seeking public assistance. These individuals should be commended for their hard work and resourcefulness. In working to create opportunities for welfare recipients to become self-sufficient, we must ensure that the working poor are not disadvantaged.

- ***Why is tax policy important to address?***

Tax policy will be crucial to our success in this effort. Many companies will not consider a welfare recipient to be the most employable job candidate. To ensure that these individuals are given the opportunity to enter the work force and prove themselves on the job, employers need to be given incentives to hire them. While the federal tax credit recently proposed by President Clinton is intended to provide this incentive, it has limited benefit for California.

Our state is primarily an economy of small businesses, many of which incur net operating losses from year to year. For these companies, the proposed federal incentive plan needs to be expanded so that they will be eligible to participate. It is also critical that this tax incentive policy not be abused by employers who may attempt to replace existing workers with tax-credited employees. This would have the damaging effect of penalizing people who have been working hard without the benefit of public assistance.

As State Controller, I serve on both of the state's tax boards -- the Franchise Tax Board and the Board of Equalization -- where I intend to expedite implementation of the policies that will enhance participation of businesses.

- ***Do tax credit benefits travel with the individual or remain with the business?***

The issue of whether a tax credit is tied to a job, or travels with the welfare recipient is a subject that was debated at length by the Commission. It can be argued that because the tax credit is an incentive to encourage an employer to hire the welfare recipient, it should "move" with the worker if that person changes jobs. However, this approach is inherently difficult from an administrative perspective, building in a disincentive for businesses -- especially small ones -- to participate. This is one of the key reasons that the Commission favors linking the credit to the job, rather than the individual.

- ***Who is responsible for secondary job training?***

A lack of marketable skills that will allow the individual to compete in the job market and earn a living is at the heart of many welfare recipients' dependence on public assistance. While virtually every business provides some level of on-the-job training, there remains a question regarding responsibility for additional training that will enable the worker to attain greater earning power and move up the economic ladder.

The Commission addresses this issue, for example, by tapping community colleges' strengths in secondary job training. However, the larger and more fundamental question that this raises is with regard to California's public education system overall. The system, structured in and for the economic realities of the past, is failing to equip our youth with rudimentary skills. These education basics are the foundation without which we cannot hope to equip California's young people with the skills they need to succeed in an increasingly knowledge-based job market. In connection with policy decisions regarding welfare-to-work, both basic education and continuing training should be central to the public dialogue.

- ***What is the role of economic development?***

California's economic development, while not the subject of this document, is a critical dimension that must be considered as welfare reform is debated. California's future depends on its ability to create an environment in which businesses prosper and middle class jobs are created. Despite the State's current economic recovery, the "wage gap" is growing faster in California than anywhere else in the nation. This gap between income levels is a result of California's changing business profile, which is producing most of the State's job growth at the high and low ends of the wage scale, not in the middle salary range. This trend has serious implications for California's tax revenues and budgeting. It must be recognized as part of the discussion regarding welfare-to-work implementation.

ACKNOWLEDGMENTS

This document is a reflection of the hard work and dedication of the Commission members and the dozens of advisors who contributed their time and expertise. The latter included, among others, representatives from the California Budget Project, Siemens Corporation, Manpower Demonstration Research Corporation, the Riverside and Los Angeles County GAIN programs, the San Jose Center for Employment Training, the Economic Opportunity Commission, the Franchise Tax Board, the State Employment Development Department, the U.S. Department of Health and Human Services, the U.S. Administration for Children and Families, the California Chamber of Commerce, the Jewish Federation, the Child Care Law Center, the California Catholic Conference, the Women's Initiative for Self Employment, and individual welfare recipients.

The Work Opportunity Response Commission members were tireless in their commitment to forging a consensus, despite their own diverse and strongly held views. They are to be commended for their service and dedication to helping California begin solving this most challenging issue for our future. While these issues will require more extensive discussion by others, the Commission members have significantly advanced the process, providing an outline for defining the important issues and overcoming the challenges before us.

KATHLEEN CONNELL
California State Controller

California's Unique Challenges

The welfare-to-work transition poses major challenges for California's state and local governments and its 2.6 million AFDC recipients.[1] The greatest share (69%) are children,[2] whose future depends on how successful their parents are in meeting the challenge of leaving the welfare rolls and becoming self-sufficient. For government, the challenge is assuring that California's economy continues to grow and produce new jobs.

REPLACING EXISTING BENEFITS

Moving able-bodied welfare recipients into jobs that will allow them to support their family without relying on assistance currently available to them is a major concern. Currently, the maximum monthly AFDC cash grant for a single-parent, two-child household in California is $594, or about $7,128 annually. Food Stamp benefits for this family average $2,976 annually. While California ranks fifth in the nation in AFDC grant levels, it ranks 32nd when AFDC and Food Stamp benefits combined are adjusted to reflect California's higher cost of living.[3]

AFDC recipients also are eligible for health care coverage under Medicaid. The value of this coverage under California's Medicaid program, Medi-Cal, is about $2,624 annually for a single parent, two-child family. Figures are not available for housing assistance; however, fewer than 10% of AFDC recipients in California receive assistance for housing.[4]

Together, these AFDC cash grants, Food Stamps, and Medi-Cal benefits total approximately $12,728 per year. (The 1996 federal poverty level is $12,547 for a family of three.[5]) However, this is an incomplete picture of the benefits available to a single-parent, two-child family. Quantifying the amount of assistance available to welfare recipients and the working poor is extremely difficult. Families may qualify for additional aid under other federal and state programs targeting such needs as child care, food and nutrition education, and energy assistance, among others. Aid programs are not uniformly available nor used and are based on complex formulas and eligibility rules. It also should be noted that the working poor are eligible for many of these benefits as well.

Despite the limitations in quantifying the existing level of assistance, it helps to add perspective to what a welfare family would need to receive in income in order to make a successful transition from welfare to work. ***These figures suggest that welfare reform's objective -- encouraging families to become self-supporting -- will be difficult to achieve, if recipients simply are shifted to minimum wage jobs with no further advancement.***

A full-time worker in a minimum wage job ($5.75/hour, the level following full implementation of California's recently approved increase) would receive an annual income of $14,408. This figure reflects deductions for payroll taxes and an earned income tax credit for a worker with two children. ***Even if some of these workers continue to qualify for Food Stamps and Medi-Cal, making ends meet may seem an overwhelming challenge.*** As illustrated in Figure 1, total annual living expenses under a "bare-bones" budget for a single-parent, two-child family equal $21,413. If that budget is adjusted to include a two-bedroom apartment (rather than one-bedroom), child care for both children (rather than just one), and certain other costs, the family's total annual living expenses would rise to $28,241.[6]

[1] California Department of Social Services, Average Monthly Recipients, June 1996, AFDC-Family Groups/AFDC-Unemployed
[2] California Department of Social Services, AFDC Characteristics Survey, October 1995
[3] California Budget Project
[4] California Budget Project
[5] California Budget Project
[6] California Budget Project

FIGURE I

WELFARE-TO-WORK INCOME NEEDS OF THE AVERAGE AFDC FAMILY IN CALIFORNIA SINGLE PARENT WITH TWO CHILDREN

EXPENDITURES	MONTHLY COSTS	ANNUAL COSTS	BARE BONES[1] MONTHLY	BARE BONES ANNUAL
Housing and Utilities	$827	$9,924	$668	$8,016
Basic Phone Service	$12	$144	$12	$144
Food at Home	$337	$4,041	$337	$4,041
Food Away from Home	$80	$960		$0
Diapers	$100	$1,200	$100	$1,200
Clothing	$25	$300	$15	$180
Medical	$177	$2,129	$177	$2,129
Savings, Emergency	$60	$720		$0
Transportation	$65	$780	$65	$780
Child Care	$605	$7,263	$385	$4,623
Recreation, Education, Reading	$20	$240		$0
Personal Care	$25	$300	$25	$300
Miscellaneous	$20	$240		$0
TOTAL COMMODITIES	$2,353	$28,241	$1,784	$21,413

SAMPLE EARNINGS AND TAXES FOR FULL TIME WORKER	MONTHLY	ANNUAL
Earning $5.75/hour	$997	$11,960
Payroll Tax (FICA & SDI) @ $5.75/hour	$86	$1,035
EITC for full-time worker earning $5.75/hour w/ 2 children	$290	$3,482
TOTAL	$1,201	$14,408

1996 FMR for a 2-bedroom in California is $787, 1-bedroom is $628. Plus $40 monthly utilities.
Food at home based on USDA low-cost plan (second lowest) for parent with one child <2 yrs and one child between 6-8 years (September 1996).
1996 full-time child care costs for one child <2 yrs and part-time for one child >=6 years old in Sacramento County, from California Child Care Resource and Referral Network (assumes 2nd child is in school part of day).
Medical is lowest cost program for medical insurance for one employee plus dependent(s) in the HIPC (N.CA), does not include copayments for doctors visits or prescriptions.
Transportation costs assume travel by public transport, monthly Regional Transit pass for one adult and one youth.

[1] Bare bones budget eliminates some expenditures, assumes a one-bedroom apartment, and includes child care for only one child.

Source: California Budget Project -- November 1996

OVERCOMING EMPLOYMENT BARRIERS

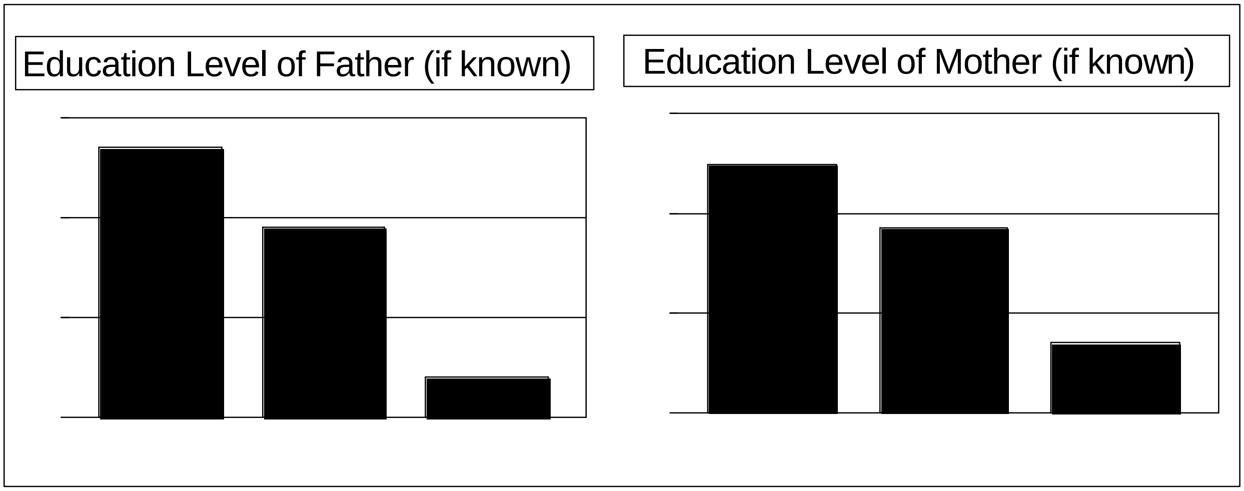
For many of California's welfare recipients, finding a job that will support these living expenses without outside assistance will be particularly challenging. The typical AFDC family is composed of a single mother with two young children. (Of the 903,000 households in this state that rely on AFDC, 70% have no father present; these households average two children. Nearly 42% of children on AFDC in California are 5 years or younger.[7]) Child care is one clear obstacle that these single parents face in the transition to the workforce. The mean monthly cost of child care in a county such as Los Angeles ranges from $421 to $582, depending on the age of the child and the setting. In Sacramento County, the cost ranges from $377 to $572.[8] This is anywhere from 31% to 48% of a worker's monthly minimum wage income.

[7] California Department of Social Services, AFDC Characteristics Survey, October 1995
[8] California Child Care Resource and Referral Network

Availability of child care during weekends, swing shifts, and other "off-hours" is another challenge to be overcome.

The educational background of welfare recipients also poses obstacles in finding jobs that pay a livable wage. The average age of an AFDC mother is 31, and of those whose educational background is known, 50% have not finished high school. Among AFDC fathers, 54% have not completed high school (Figure 2). [9]

FIGURE 2



Source: California Department of Social Services, AFDC Characteristics Survey

REGIONAL VARIATIONS IN CASELOAD AND UNEMPLOYMENT

Welfare recipients in rural counties will be affected just as significantly, if not more, than those residing in California's urban areas. As Figure 3 indicates, there is a wide variation in caseload, with many of the highest occurring in the state's rural counties. For example, in Fresno County 15% of the population receives AFDC, while just under 10% of Los Angeles County's population receives aid. In Marin County, only 2% of the population relies on AFDC.

Variation in unemployment rates also is a major factor affecting each county's ability to move its welfare population into the workforce. Figure 4 illustrates that, despite statewide indicators that show robust economic health, some regions are still struggling to recover from the recession. Counties with higher unemployment rates face the difficult challenge of generating new jobs not just for welfare recipients, but for their unemployed population in general.

[9] California Department of Social Services, AFDC Characteristics Survey, October 1994

Figure 3

CALIFORNIA'S AFDC CASELOAD BY COUNTY

COUNTY	Total Population	AFDC Recipients	%on AFDC	Adults as % of AFDC Pop.	COUNTY	Total Population	AFDC Recipients	%on AFDC	Adults as % of AFDC Pop.
Alameda	1,356,100	98,602	7.3%	33.0%	Orange	2,624,300	113,090	4.3%	32.9%
Alpine	1,180	124	10.5%	29.0%	Placer	206,000	8,025	3.9%	35.1%
Amador	34,000	1,000	2.9%	35.5%	Plumas	20,450	1,284	6.3%	35.8%
Butte	197,000	22,911	11.6%	34.5%	Riverside	1,381,900	107,989	7.8%	30.3%
Calaveras	36,950	2,455	6.6%	35.9%	Sacramento	1,123,400	146,304	13.0%	32.7%
Colusa	17,950	1,043	5.8%	33.5%	San Benito	43,350	2,878	6.6%	35.3%
Contra Costa	870,700	45,450	5.2%	33.2%	San Bernardino	1,589,500	185,996	11.7%	31.4%
Del Norte	28,650	3,619	12.6%	34.2%	San Diego	2,690,300	185,464	6.9%	32.0%
El Dorado	144,900	5,724	4.0%	36.7%	San Francisco	755,300	33,070	4.4%	35.9%
Fresno	760,900	113,969	15.0%	27.9%	San Joaquin	529,300	69,648	13.2%	30.0%
Glenn	26,600	2,505	9.4%	30.1%	San Luis Obispo	232,400	9,585	4.1%	35.4%
Humboldt	125,500	11,169	8.9%	35.3%	San Mateo	691,500	15,520	2.2%	29.9%
Imperial	140,100	21,553	15.4%	34.6%	Santa Barbara	394,600	18,740	4.8%	32.7%
Inyo	18,550	1,169	6.3%	37.6%	Santa Clara	1,612,300	79,260	4.9%	32.6%
Kern	624,700	74,099	11.9%	30.2%	Santa Cruz	243,000	10,779	4.4%	34.6%
Kings	118,900	11,964	10.1%	30.9%	Shasta	161,600	18,088	11.2%	35.5%
Lake	55,300	7,180	13.0%	36.0%	Sierra	3,390	142	4.2%	39.4%
Lassen	31,050	2,682	8.6%	35.9%	Siskiyou	44,600	4,799	10.8%	36.5%
Los Angeles	9,369,800	871,713	9.3%	29.7%	Solano	373,100	24,802	6.7%	33.8%
Madera	108,900	12,517	11.5%	30.6%	Sonoma	421,500	17,581	4.2%	34.6%
Marin	239,500	3,973	1.7%	35.4%	Stanislaus	415,300	47,989	11.6%	32.2%
Mariposa	16,050	1,098	6.8%	37.3%	Sutter	74,100	5,541	7.5%	10.3%
Mendocino	84,500	7,883	9.3%	36.1%	Tehama	54,400	5,640	10.4%	33.9%
Merced	198,500	36,434	18.4%	31.5%	Trinity	13,400	1,233	9.2%	34.7%
Modoc	10,150	1,174	11.6%	36.1%	Tulare	351,500	54,178	15.4%	30.5%
Mono	10,600	286	2.7%	34.3%	Tuolumne	52,700	3,533	6.7%	37.7%
Monterey	364,500	23,829	6.5%	31.1%	Ventura	716,100	28,416	4.0%	31.7%
Napa	119,000	3,912	3.3%	34.3%	Yolo	152,100	12,702	8.4%	34.5%
Nevada	87,000	3,203	3.7%	34.7%	Yuba	62,200	10,993	17.7%	28.8%
					Total	**31,786,570**	**2,616,509**	**8.2%**	**31.2%**

Source: CA Department of Social Services, Research Branch/AFDC-Information Services Bureau, June 1996

FIGURE 4

CALIFORNIA'S UNEMPLOYMENT RATE BY COUNTY

COUNTY	UNEMPLOYMENT	COUNTY	UNEMPLOYMENT
Alameda	5.2%	Orange	4.2%
Alpine	15.8%	Placer	5.1%
Amador	5.6%	Plumas	6.9%
Butte	7.6%	Riverside	9.1%
Calaveras	8.1%	Sacramento	5.8%
Colusa	12.1%	San Benito	8.7%
Contra Costa	5.0%	San Bernardino	7.2%
Del Norte	8.4%	San Diego	5.4%
El Dorado	5.7%	San Francisco	4.8%
Fresno	10.8%	San Joaquin	8.7%
Glenn	12.1%	San Luis Obispo	5.4%
Humboldt	6.4%	San Mateo	3.5%
Imperial	33.3%	Santa Barbara	5.6%
Inyo	7.5%	Santa Clara	3.8%
Kern	11.6%	Santa Cruz	6.0%
Kings	10.6%	Shasta	8.3%
Lake	10.0%	Sierra	5.7%
Lassen	7.3%	Siskiyou	11.0%
Los Angeles	7.6%	Solano	7.3%
Madera	11.1%	Sonoma	4.1%
Marin	3.4%	Stanislaus	11.1%
Mariposa	5.6%	Sutter	11.2%
Mendocino	7.2%	Tehama	8.3%
Merced	11.9%	Trinity	11.3%
Modoc	8.5%	Tulare	14.8%
Mono	10.8%	Tuolumne	8.2%
Monterey	6.9%	Ventura	8.2%
Napa	5.1%	Yolo	4.6%
Nevada	5.9%	Yuba	12.0%
		State Total	**6.8%**

Source: EDD Monthly Labor Force Data September 1996

OTHER CONSIDERATIONS

In 83% of families receiving AFDC, the children are eligible for child support. Yet child support orders are in place in only 17% of these cases, and fewer than half of those actually receive some type of child support.[10] This underscores the importance of boosting child support collection efforts.

[10] California Budget Project

Studies indicate that many welfare recipients cycle on and off the welfare rolls.[11] In California, more than half (54%) of the families receiving AFDC are receiving it for at least the second time.[12] However, it also appears that most recipients are on the rolls less time than the new law's five-year limit. Thirty-one percent of AFDC recipients have received aid for a total of less than two years; 34% of recipients have received aid for a total of two to five years; and 35% have spent more than five years on aid.[13] These statistics apply only to aid received in California, however. ***To enforce the new law's time limits, policymakers will need to be able to track the time individuals receive aid in other states as well.*** Since there currently is no national database on AFDC recipients, it is not clear how California will be able to obtain this information.

With the elimination of the federal entitlement to welfare benefits, policymakers also must decide the eligibility criteria for certain categories of recipients currently receiving aid. One of these is "non-needy relative caregivers." Currently, AFDC benefits are available to households in which AFDC-eligible children live with a relative because the parent is unable to care for them. It is not yet clear if these caregivers, who often are grandparents of the children, are covered by the new law's work requirements. Another category which is not directly addressed in the new federal law includes households in which eligibility is based on the unemployment of a parent. Until the recent change, AFDC eligibility was based on the deprivation of parental support resulting from the absence, incapacitation, death, or unemployment of a parent. While the majority of AFDC families are headed by a single parent, a significant share (18%) are two-parent households in which the primary breadwinner is unemployed.

These are just a few of the myriad issues that policymakers will contend with as they devise a welfare reform implementation plan and job creation strategy for California. The lack of comprehensive profile information on welfare recipients presents a particular challenge in estimating their job readiness and background. The welfare-to-work transition will be smoother -- both in terms of deciding what training is needed and providing additional support -- if these information gaps can be filled.

[11] The Urban Institute, Questions and Answers on Welfare Dynamics, September 1995

[12] California Budget Project

[13] California Department of Social Services, AFDC Characteristics Survey, October 1995

Summary of Recommendations

(The full text of the recommendations is provided in the Appendix.)

CREATING NEW JOBS

The federal tax credit recently proposed by President Clinton is intended to spark job growth by providing employers a 50% tax credit on the first $10,000 in wages earned by a long-term welfare recipient.

However, California's economy is driven by a large number of small businesses. Most firms in the state (97%) employ fewer than 200 people. In addition, over 40% of California's businesses incur net operating losses each year. For these businesses, the federal tax credit does not provide any benefit. ***The Commission recommends two key refinements to the President's plan, with the intent of providing a stimulus for California businesses to employ welfare recipients***:

1. Allow companies to elect to receive a federal ***refund*** of 50% of the credit amount, or a maximum of $2,500 per eligible employee; or

2. Allow companies the option to ***carryback*** up to 3 years, and ***carryforward*** up to 15 years, the full amount of the tax credit.

These refinements reflect the fact that in California, many of the jobs for welfare recipients will be created by small, entrepreneurial companies hiring people one, two, or three at a time. This is one of the critical differences between California and some of the large Midwestern and Eastern states which have economies that rely heavily on large, manufacturing operations.

The most important issue relating to tax credits for businesses employing welfare recipients is to ensure that workers already employed in these companies are not displaced. Tax credits must be narrowly targeted so the focus is on expanding economic opportunity for the poor and unemployed. Any attempt to substitute one set of employees in place of those who have been working to earn a living and support their families must not be tolerated. The Commission concluded that there must be strong sanctions against any business that might abuse tax credits by terminating a current employee and hiring a welfare recipient. At the same time, businesses that hired welfare recipients just prior to the availability of a credit must not be disadvantaged; employers should be deemed to have "hired" those employees on the day that the tax credit first becomes available.

The Commission also recommends that California offer a state-level welfare-to-work tax credit equal to one-third of the federal credit. The state credit should mirror the eligibility requirements and compliance procedures of the federal credit; this will enhance participation by small businesses that often forego available tax incentives because they lack accounting staffs to prepare complex paperwork.

Another key recommendation that simplifies the process for both employers and welfare recipients seeking jobs involves "conditional certification." This is a screening process that pre-approves eligibility of potential employees to qualify an employer for tax credits. The job-seeker could bring the pre-approval certificate to the job interview, thereby enhancing his or her chance of getting the job.

LEARNING MARKETABLE SKILLS

How to equip welfare recipients with marketable job skills that will allow them to support themselves and their families is a pivotal question policymakers must answer if the welfare-to-work transition is to be made successfully. The Commission came to two basic philosophical conclusions in this area:

1. Recipients will be more likely to achieve long-term success if they are required to "work first," with training to follow. The "Work First" approach involves placing individuals in jobs following minimal training (30 days or less). This training typically focuses on job readiness and work ethic/work culture to prepare new workers for a workplace setting and what will be expected of them. Once the individual is working, other job skills can be taught and advancement is possible. This approach was presented to the Commission by private and public sector entities with experience preparing low- or no-skill individuals for working. They reported that "work first" emphasizes the importance of a work ethic and stable work habits, which are just as critical as technical skills, many of which can and are learned on the job.

2. Local job training and placement strategies tailored to local needs and conditions are likely to produce better outcomes than those dictated at a higher level of government. Therefore, the Commission recommends that counties be provided broad flexibility in achieving results.

The State fulfills important functions; however, the Commission concluded that state government, beyond allocating funds, should play a fairly limited role.

The State should set baseline targets that counties must meet for moving recipients off the welfare rolls, with minor adjustments for local economic hardships. If a significant number of the state's 58 counties fail to meet their share of federal goals, California risks overall reduction in its federal block grant allocation. As such, authority and flexibility at the county level must be accompanied by responsibility for delivering results.

The State should also provide technical assistance and guidance to counties that request help in identifying model job training and placement programs. Counties may choose to base their programs on these models, or craft their own. The Commission is particularly supportive of local public/private/non-profit partnerships to assess employment needs, develop training curricula with community colleges and others, provide start-up funds for entrepreneurs and identify job-entry restrictions that could be relaxed to facilitate the hiring of welfare recipients. One example of how such partnerships could be utilized to achieve this objective involves changing federal law governing Enterprise Zones and Empowerment Zones to enhance the benefits available to businesses that operate in these Zones.

Cost-efficiency and streamlining of services are among the key reasons the Commission recommends counties consolidate services into one-stop job service centers. These "hubs" of job-related activity would allow community-based providers, non-profit organizations, and social service foundations to pool resources, stretching every dollar and helping to ensure target populations are served.

Maximizing use of existing resources is also at the heart of the Commission's recommendation encouraging counties to coordinate with state and federal agencies to ***convert closed and downsized military bases into these one-stop job training centers***. They could also be "incubator" sites for new businesses, and other job-related activities. California's over 100 community colleges are also viewed as natural sites for this type of activity.

The Commission is concerned with equity issues raised by job placement programs that are only available to one segment of the population. As such, the Commission believes the State must ensure that services provided by the counties to the welfare population are also available to low-income and under-employed individuals who are not on public assistance.

ACHIEVING SELF-SUFFICIENCY

For many welfare recipients, finding a job and learning new skills are just part of the answer to ending their dependence on public assistance. Many other challenges that must be overcome have a direct impact on the well-being of their children. Focusing on support services will greatly improve the odds of long-term success for welfare recipients attempting to enter the work force and provide for their families.

To streamline the provision of child care, food-stamp, housing, and TANF benefits, an Electronic Benefits Transfer (EBT) system should be implemented. Much like an ATM card, an EBT card could be used by qualified recipients to access child care, food stamp, housing, and general TANF accounts in their name. Controlled by the county treasury, funds could be delivered more efficiently, with less bureaucracy and less risk of fraud through this more advanced distribution technology.

County In-Home Supportive Services (IHSS) should be expanded to include child care services. Child care is more than simply a problem of cost. Many entry-level jobs likely to be available to welfare parents involve working at night, on swing shifts, and on weekends. Accessibility of child care during these "off hours" is already limited. Demand is likely to increase as more welfare parents move into the work force. ***An expanded IHSS program can help meet this need by employing welfare recipients as IHSS child care providers for others making the welfare-to-work transition.*** In addition, the Commission recommends that the State establish a simple, centralized Registry of Licensed Child Care Providers, broken down by region, to assist parents in locating child care providers.

The existing Child Support Enforcement Program needs to be expanded to help welfare mothers collect unpaid child support. An overwhelming percentage of children in AFDC households are eligible for child support, but relatively few of them actually receive it. Collecting a greater proportion of court-ordered child support would reduce the financial burden that forces many single mothers onto the welfare rolls in the first place. It also would help assure that those entering the work force in low-paying jobs are able to adequately provide for their children. The State Controller, in conjunction with the Franchise Tax Board and county district attorneys, has successfully run the Child Support Enforcement Program statewide for several years. The Commission believes that even greater successes can be achieved by expanding this program.

Transportation is another critical issue, particularly in California. This is a state of great distances. Often there is a long commute between areas of affordable housing and job centers. Thus, the Commission supports extending the state law which provides tax credits to employers and employees for participating in or providing vanpool and rideshare programs

Recommendations on Tax/Business Incentives

1. Federal Welfare-to-Work Tax Credit

- The WORC Force believes that the federal Welfare-to-Work Tax Credit as outlined below would represent an incentive for companies to hire long-term welfare recipients.

Summary of the federal "Welfare-to-Work Tax Credit"

- President Clinton has proposed offering a tax credit of 50% of an employee's first $10,000 in annual wages for up to two years. The maximum credit will be $5,000 per year per employee. The actual amount of tax credit will depend on the employer's tax rate and the amount of wages earned. Employer-provided education and training assistance, health care, and dependent care spending will be treated as wages.
- Who is eligible as a member of the target group -- "Long-term welfare recipients" are defined as (1) members of families that have received family assistance (AFDC or its successor program) for at least 18 consecutive months ending on the hiring date; (2) members of families that have received family assistance for at least 18 months after the date of enactment and who are hired within two years of the time the 18-month total is reached; and (3) members of families who are no longer eligible for family assistance because of federal or state time limits and who are hired within two years of the date that they become ineligible for family assistance.
- An employer becomes eligible for the tax credit after the employee has completed at least 400 hours of service.
- The duration of the program is expected to be two years.
- The total cost of this credit is expected to be $383 million to be applied for employees nationwide between fiscal year 1997 and fiscal year 2002.

Recommended additions to the federal program

- Over 40% of California businesses incur net operating losses each year. Therefore, this tax credit may be worthless to many businesses. Accordingly, the WORC Force recommends that the tax credit program be expanded to include the following features.

Businesses that incur net operating losses have two options:

1. They may elect to receive a refund of 50% of the credit amount or a maximum of $2,500 per eligible employee; or,
2. They may carryback up to 3 years and carryforward up to 15 years the full amount of the tax credit.

Businesses that incur a tax liability that is less than the tax credit amount:

These businesses would take the tax credit for the amount of the tax due and carryback any excess credit for 3 years and carryforward the unused balance for up to 15 years.

- The credit should be limited so as to apply only to "new or open jobs," both of which terms are to be defined with specificity, to protect against displacement of non-subsidized employees.
- Special circumstances relating to seasonal employees are to be recognized and addressed. Although it was determined that employers of seasonal workers should be able to access the credit, the Commission believes that seasonal employees should be assisted in their efforts to become permanent employees, and that the credit should be limited to the number of employees beyond the norm hired by that employer. For example, in an agricultural setting, an

employer should only receive tax credits for the number of employees in excess of the number hired for the same season in any of the previous two or three years.

- Responsibilities toward the welfare-to-work effort must apply to businesses who receive the benefits of the tax credit. In particular, these businesses must cooperate with their local welfare programs by, for example, contributing to the counties' efforts to identify job availabilities.
- A tracking system should be established or study undertaken to evaluate the use of both the federal and state credits and determine whether they are satisfying the intended objectives.
- The program should be calendared for review by Congress after two years and either sunsetted or reauthorized, accordingly.

2. State of California Welfare-to-Work Tax Credit

- The State of California should offer a comparable tax credit that is a percentage of the federal tax credit. The California credit should be one-third of the federal credit amount reflecting a policy that state credits should be proportionate to the respective tax rates at the federal and state levels.
- The WORC Force does not recommend a stand alone credit for the state, but rather it should be tied to the federal credit. The State's eligibility requirements and compliance procedures should be identical to the federal program to the extent possible.

3. Employee Eligibility Certification

- Ideally, the current federal form 8850 "Work Opportunity Credit Pre-Screening Notice and Certification Request" should be replaced. In its place, the Conditional Certification by EDD should be utilized to certify eligibility of the employee for the employer's tax credits. The "Conditional Certification" by EDD follows a pre-employment screening process that would assure an employer of the tax credit should the employee complete the required 400 hours of service.
- At a minimum, federal Form 8850 should be revised to include long-term welfare recipients. In addition, all applicants must be required to circle the targeted group or category that applies to him or her. Present EEOC rules prohibit such questions of an applicant, and the rules must be changed to permit such information to be asked. Also, faxes and interneting of forms should be permissible.
- It is strongly recommended that compliance procedures be simple and recordkeeping rules be kept to a minimum. Concern was expressed that the IRS's involvement will cause unwieldy requirements that employers do not want to deal with. Currently, tax credit eligibility is established "after the fact." Employers need eligibility established at the time of hiring.

4. Long-Term Welfare Recipients Stigma in Employment Process

- The WORC Force does not believe there would be a stigma associated with the use of the "Conditional Certification" process now utilized by EDD. To the contrary, it provides an employer with the assurance that the potential employee has been pre-screened and is eligible for the tax credit. Likewise, the applicant (assuming equal qualifications for the job) would have an advantage by providing the employer with the tax credit opportunity.

5. **Churning of Employees**

- The consensus is that employers will not terminate existing employees for the opportunity to hire "tax credit eligible" employees. The cost of employee turnover would equal or exceed the benefits of the tax credit. However, employers will take advantage of the tax credit in hiring eligible welfare recipients to fill vacancies created through normal turnover.

6. **Enterprise Zones, etc.**

- The WORC Force prefers the "Welfare-to-Work Tax Credit" over the use of an Empowerment Zone or Enterprise Community/Enterprise Zone as an incentive to hire the long-term welfare recipient. The various zone credits have geographic limitations that do not necessarily coincide with the addresses of most welfare recipients.
- Since it is imperative that new jobs are created, WORC Force recommends that benefits for development of new businesses in Enterprise Zones be maintained but that the eligibility for the benefits be tied to the hiring of a certain percentage of the employment force from welfare recipients from *any* geographical area, i.e., the Zones' credit for wages paid must not be limited only to the hiring of welfare recipients who live *within* the Enterprise Zone. However, for those welfare recipients living outside an Enterprise Zone but hired to work within, perhaps the applicable Zone-related tax credits should be provided at a reduced percentage.
- Additional incentives to enhance the development of jobs in Enterprise Zones and Empowerment Zones should be provided in relation to trade status and support, health benefits, employee training, and financial assistance in renovating facilities and keeping them secure.

7. **Employment Training and Retention**

- The WORC Force recommends a review of the California Employment Training Tax (ETT) to exempt employers that contractually agree to provide training to their employees.
- In addition, the qualification rules should be amended to permit easier access to ETT funds by small business.
- Although not a tax or business incentive, it is further recommended that the agencies providing training of welfare recipients include social and job retention skills, as well as, how to: 1) apply for a job, 2) prepare for joining the work force, 3) work in a team environment, and 4) interact with other employees.

8. **Employee Incentives**

- Consideration should be given to providing additional incentives for the long-term welfare recipients to seek, accept, and maintain employment. With the majority of these employees obtaining minimum wage jobs and given that their key concerns are child care, medical coverage, and transportation, these incentives should be provided if possible (See Recommendations on Support Services).

Recommendations on Job Training and Apprenticeship

1. <u>Work First</u> Given the urgent need to place extraordinarily large numbers of people into jobs immediately, the State and each county shall view the "Work First" model as the principal method to transition welfare recipients to work. The "Work First" model should be utilized to place the majority of welfare recipients in jobs as soon as possible with only minimal training,

2. <u>State Role</u> Given that the federal block grant requirements apply to the state as a whole, the State of California must enforce the Work Participation Rate and other standards necessary for federal compliance which county programs must meet.

- The State shall **apportion TANF and other federal and state monies** to county governments, in the form of block grants.
- The State shall **establish program requirements** to ensure that California meets its TANF and other federal requirements so that there will be no reductions in funding due to non-compliance or failure to satisfy goals.
- The State shall **create a number of models** for the delivery of job-related training and placement services from which county governments may choose to construct their programs. The Commission strongly recommends flexibility of program implementation at the county level.
- The State shall **establish baseline benchmarks and standards** to which counties' programs must adhere, and performance measurements for evaluating the effectiveness of the counties' programs.

3. <u>County Role</u> The WORC Force recommends counties should have the discretion to construct programs that meet state standards for federal compliance in ways that best satisfy local needs and conditions.

- Counties shall **select among, and administer, the state-proposed models**, as well as other options of their own choosing which meet state standards, for the delivery of job-related service.
- Counties **may choose to target particular segments** of the welfare-to-work population for greater attention in the provision of job-related services and benefits, e.g., long-term unemployed persons, long-term welfare recipients, substance abusers, single parents with young children, and residents of Empowerment Zones/Enterprise Zones.
- Counties shall **determine the levels of training** that must be provided to new trainees and the levels of fundamental skills that must be acquired by new trainees prior to being placed in jobs.
- Counties shall **develop and implement systems of accountability** to monitor the disbursement of funds, provide information on the population being served through such disbursements, and facilitate evaluation of the performance of each county's program.

4. <u>State Program Options</u> The Commission believes that the State should provide models from which county governments may choose when constructing their job-related services programs to satisfy the local supply and demand for jobs and for employees. Counties may construct their programs from combinations of the following options, and may utilize others, as well.

a. Work First -- The Commission recommends the immediate placement of welfare recipients into jobs after minimum job and work culture training.

- Trainees must become employed or enter an eligible training program within 30 days from the time of the county's establishment of a Work First Program or receipt of initial welfare benefits.
- Some degree of job readiness training and work culture training should be provided prior to initial job placement. If necessary, counties should include basic communication, reading, and math skills as well.
- Once an individual has begun training or working, priority will be given to such individuals for the receipt of supportive services and other forms of county employment support.

b. Partnerships -- The WORC Force recommends public/private partnerships as an effective means of linking potential employees with potential employers.

- The public/private partnerships would include local large and small businesses, industry associations, labor unions, community-based organizations, community colleges, local governmental agencies, state governmental agencies, federal governmental agencies, religious organizations, and others.
- Each county's partnership should have an advisory committee comprised of partnership participants to regularly discuss local needs for high-skilled and low-skilled employees, development of curricula for new trainees, ways to ease entry of employees into the work force, the use of Enterprise and Empowerment Zones in enhancing job growth, and methods for satisfying current and projected demand for employees.

c. Apprenticeships and Vocational Education-- The WORC Force recommends the continued support for the utilization of vocational education to prepare welfare recipients for specific occupations, and apprenticeships to transition employees into highly skilled trades.

d. School-to-Work Programs -- The WORC Force recommends the continued funding and reliance upon the use of school to work programs involving high schools and community colleges.

e. Entrepreneurship and Self-employment -- The WORC Force recommends that support for entrepreneurship programs be continued and that individuals who wish to establish their own businesses should be encouraged to do so and supported in their efforts.

- Counties should make efforts to encourage private sector lenders to make start-up loans more accessible.

5. <u>State Benchmarks and Standards</u> -- The WORC Force beliefs that benchmarks and standards must be developed at the state level for uniform, statewide rules affecting access to services, protections for the existing workforce, performance measurements, and means of satisfying goals.

- The welfare-to-work program in each county must be made **available and provide services to low-income and underemployed individuals and families who are not welfare recipients**, as well as to those who are receiving welfare.
- Welfare recipients already enrolled in two-year degree programs at community colleges, and similar certified programs, must be allowed to continue in the programs for purposes of required participation in training programs, rather than having to start a new program elsewhere.

- The **Work Participation Rate requirements** (WPRs) which have been imposed by the federal government on the states **should be imposed on each of the counties, with possible minor adjustments** to reflect the conditions of the local economy, such as the unemployment rate (see Figure 4). The WPRs shall accompany the authority granted by the State to the counties to construct the job-related skills and services programs in accordance with the counties' discretion. For example, the requirement that, by the year 2002, 50% of the TANF-eligible population will be engaged in work activities shall be required of each county, perhaps with a minor adjustment on a county-by-county basis, as well as being required by the federal government of the state as a whole.

- **Displacement of current employees, and "churning employees," by regularly hiring and releasing employees in order to satisfy business objectives, should be prohibited.**

6. Governmental Efficiency -- The WORC Force believes that governmental efficiency in the delivery of job-related services should be encouraged through consolidated "one-stop" job services centers, and efficient use of existing resources.

a. Consolidation of State, County, and Municipal Offices -- The WORC Force recommends that such entities engaged in job training, skill assessment, job placement, and related services should be consolidated into a single "one-stop" job services center.

- Such consolidations would be optional, at the choosing of county governments to do so, with a requirement upon the state government to consolidate with the local government offices when the county elects to do so.

- Federal agencies involved in job-related services, particularly the Department of Labor, should also be encouraged to participate in the consolidations when requested to do so by a county.

- Employers that receive tax credits in connection with the welfare-to-work effort must cooperate with local "one-stop" job service centers, coordinating their job training and apprenticeship activities, and contributing to the counties' efforts to identify job availabilities.

- Pooling of financial and other resources must be allowed (including TANF funding, JTPA funding, foundation grants, other non-profit funding, county funding, employer contributions, etc.) so as to maximize efficiency and expand the range and depth of services available

b. Transition From Existing Programs -- The Commission recommends that current job-related efforts, most notably the GAIN programs, should be maintained until the new county welfare-to-work programs are operational, and that the new programs should consider replicating the successful Riverside County GAIN program. In transitioning, counties must have full flexibility to establish new systems and mechanisms.

c. Decommissioned Military Bases -- The WORC Force recommends the use of closed and downsized military bases as job training centers, "incubator" sites for new businesses, and related uses.

Recommendations on Support Services

1. Child Care -- The WORC Force proposes the following measures with respect to the implementation of child care services under the new TANF plan for California:

- Establish and **implement an electronic benefits transfer (EBT) system** to administer distribution of Child Care and Development Block Grant (CCDBG) funds to qualified recipients. Such funds would be drawn down by recipients directly against county treasury accounts via personal debit cards (EBT cards) which involve the same technology as ATM cards. Each recipient would have a personal Child Care Account credited from the county treasury to his or her EBT card.
- Expand county In-Home Supportive Services *(***IHSS) systems to include the provision of** ***child care services*** to accommodate increases in child care demands **during off-hour work periods**. This program would be further expanded to accommodate welfare recipients seeking to meet TANF work participation requirements through the provision of child care services to other TANF families.
- Exercise the state option to **exempt single parents with children under age 1 from TANF work participation** requirements without penalty.
- Establish a centralized **State Registry of Licensed Child Care Providers**, broken down by region, through the Department of Education, the official state administrator of the CCDBG.

2. Nutrition -- The WORC Force proposes the following measures with respect to the implementation of child and adult nutrition and food services under the new TANF plan for California:

- Use the **EBT card system to provide food stamp disbursements** through county treasury accounts. This account would be separated from the child care account, thereby preventing co-mingling of funds.
- Exercise state waivers to **take advantage of federal flexibility on work requirements** for Food Stamp recipients in areas with high unemployment and among groups of adults with very low educational attainment and job skills.

3. Transportation -- The WORC Force proposes the following measures with respect to the implementation of transportation services under the new TANF plan for California:

- **Extend state law which provides tax credits** to employees who participate in non-employer-sponsored vanpool programs and to employers who provide ridesharing incentive programs or subsidize public transit passes for employees.
- Support and **disseminate information regarding federal exclusions** from gross income for the value of employer-provided commuter transportation, transit passes, or qualified parking.

4. Child Support -- The WORC Force proposes the following measures with respect to the implementation of child support services under the new TANF plan for California:

- **Expand the existing Child Support Enforcement program,** which has been successfully administered by the State Controller, the Franchise Tax Board and the county district attorneys, in order to help those recipient mothers seeking to transition from welfare to work to acquire the financial support they are entitled to from "dead beat dads."
- Implement the new federal requirement that applicants or **recipients must cooperate with paternity establishment** or the state must deduct a minimum of 25% from the family's cash grant, or may deny the entire amount of cash assistance to the family with appropriate exemptions for victims of domestic violence.
- Retain the AFDC program requirement that the **first $50 in child support collected be "passed-through" to the families** under the new TANF program.
- **Negotiate amendments to Cooperative Agreements with American Indian Tribes** in California to ensure enforcement of child support agreements under Tribal authority and jurisdiction.

5. Other Issues -- The WORC Force proposes the following measures with respect to the implementation of additional services under the new TANF plan for California:

- Use the **EBT card system to provide housing and general TANF benefits disbursements** through county treasury accounts. These accounts would be separated from the child care and food stamps accounts, thereby preventing co-mingling of funds.
- **Support transitional Medi-Cal** which provides coverage to individuals transitioning from welfare to work for one year.

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